

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53663; File No. SR-NSX-2006-05)

April 17, 2006

Self-Regulatory Organizations; National Stock Exchange; Notice of Filing of Proposed Rule Change to Prohibit Tape Shredding

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, as amended, (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 4, 2006, National Stock ExchangeSM (“NSX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange is proposing to add an interpretation to Rule 3.1, which identifies the splitting of any order into multiple smaller orders (“tape shredding”) for any purpose other than best execution as contrary to the high standards of commercial honor and just and equitable principles of trade. The text of the proposed rule change is below. Proposed new language is underlined.

RULES
OF
NATIONAL STOCK EXCHANGE

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¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240. 19b-4.

CHAPTER III.

Rules of Fair Practice

Rule 3.1. Business Conduct of Members

A member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade

Interpretations and Policies:

01. A member may not split any order into multiple smaller orders for any purpose other than seeking the best execution for the entire order.

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II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The NSX has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Commission has expressed concern that participants in the United States securities markets may be engaging in the practice of "tape shredding," the practice of unbundling customer orders into multiple smaller orders for the primary purpose of maximizing payments to the participant or participant firms. Accordingly, the Commission has requested self-regulatory organizations to adopt rules to prohibit the practice.

The Exchange strongly believes that the practice of tape shredding is inappropriate and should be prohibited. Further, it believes that tape shredding constitutes conduct that is inconsistent with the high standard of commercial honor and just and equitable principles of trade. Accordingly, the Exchange is adding an interpretation and policy to its Rule 3.1 to explicitly prohibit NSX members from splitting large orders into multiple smaller orders for any purpose other than best execution.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,³ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁴ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of, a free and open market and a national market system, and, in general, to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

³ 15 U.S.C. 78f(b).

⁴ 15 U.S.C. 78f(b)(5).

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSX-2006-05 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NSX-2006-05. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all

comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal offices of NSX. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSX-2006-05 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵

Nancy M. Morris
Secretary

⁵ 17 CFR 200.30-3(a)(12).